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The Province of Alberta

IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta September 20th, 1945.

VOLUME 42

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I N D E X

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VOLUME 42

20th September, 1945.
9.30 A.M. Session.

ROBERT DONELLAN, having been recalled, examined by Mr. Harvie, testified as follows:

THE CHAIRMAN: All right, Mr. Chambers.

MR. HARVIE: Excuse me, Mr. Chairman, again there is some information to be filed.

A There are one or two matters arising from yesterday that I would like to read in connection with Mr. Blanchard's comment regarding the return of interest during construction on page 3185.

A review has been made of the calculation of interest during construction and we put it in our submission 101-A. As I stated, it was not the intention to charge interest after December 31, 1944, and it was felt that the formula as shown on page 22 referred to gives effect to this understanding, since it was based on the 50% of the funds being the average amount of cash used during the construction period, which extended up to March 31, 1945. Interest for the six months ending December 31, 1944, was calculated on this amount. It was felt at the time, and we still feel, that this computation does not charge interest for expenditures made subsequent to December 31, 1944. On the other hand, the reasoning used by Mr. Blanchard, that the $728,000.00 includes $64,000.00 worth of expenditure which was not actually paid out until 1945, does technically leave the formula, from one point of view, open to question as being inclusive of interest during 1945.

All of the $664,584.90 shown on this

statement represents expenditures up to December 31, 1944 and to leave no question as to duplication of interest during construction and operations, it is suggested that the amount of interest during construction be reduced from $28,856.47 to $26,300.94. This amount has been calculated in accordance with the procedure outlined by Mr. Blanchard; namely, $28,856.47 represents 3.9575% interest on total capital expenditure of $728,655.85. Applying this rate of interest on the expenditure of $64,068.95 gives $2535.53, which were suggested should be applied in reduction of the amount shown.

Q I think, Mr. Donellan, that you prepared a statement in reply to the question that Mr. Blanchard asked in cross-examination respecting net return realized by the British American Oil Company.

A Yes, I prepared an exhibit in connection with that.

MR. HARVIE: I suggest that that be Exhibit 119.

STATEMENT PRODUCED HERE
MARKED EXHIBIT 119.

Q MR. HARVIE: Now you might read this statement.

A Shall I proceed, Mr. Chairman?

THE CHAIRMAN: Yes.

A With reference to the evidence brought out under Mr. Blanchard's cross-examination in respect of net return realized by The British American Oil Company, I have prepared the attached Exhibit. This Exhibit shows, on the left hand side, the summary by years 1944 to 1938, of Capital and Surplus Net Profit for the year, with this latter amount expressed as a percentage of the former amount. This statement supports evidence given by me on 18th September, that the average net earnings of the Company, over the seven year period, were 11.93%. As will be seen from the Exhibit, this was in respect

of Canadian operations only. Taking the total Company activities including its U.S.A. subsidiaries, the average realized was 12.16%.

The right hand section of the statement gives effect to the suggestion made by Mr. Blanchard that he would like to have the percentage earnings expressed on the assumption that, instead of financing by debentures to the extent of $10,500,000 shown on the 1944 balance sheet, that capital stock had been issued instead of debentures. The net earnings for the year have, therefore, been adjusted as will be seen on the statement by adding back the amount of debenture interest and making allowance for the increased income tax which would be payable on such interest. This shows that the net earnings actually realized on the operations of the Company were 8.52% in 1944 or an average over the seven years of 9.08% in respect of Canadian earnings only, or, if the total earning capacity of the share-holders' equity is taken into consideration; i.e. adding the revenue from the U.S.A. subsidiaries, it is shown that the net rate of return actually earned by the share-holders' equity in the Company over the seven years, has been 9.65%. This based on the assumption that, instead of debentures, capital stock had been issued.

This information is supplied at Mr. Blanchard's request without agreeing to the fairness of considering debentures as capital; the fact being that the reputation, management and ability of the British American Oil Company is such that it is able to finance by debentures at the comparatively low rates of 2½% to 3¼% per annum and it is this ability which in part enables the Company to achieve a real net earning on share-holders' equity of 12.16%, shown on the left hand side of the statement.

Q MR. HARVIE: Mr. Donellan, just by referring to that it has been brought to my attention that on the 8th line of that statement, where you refer to the figures 11.93, there is a typographical error, I think those figures should be, the last two should be transposed, it should be 11.39.

A In the statement itself?

Q No, in the memorandum, the statement itself is correct.

A 11.39, there is a typographical error in my notes, it should be 11.39, that is correct.

MR. BLANCHARD: Mr. Chairman, might I ask a question arising out of this?

THE CHAIRMAN: Yes.

CROSS-EXAMINATION BY MR. BLANCHARD.

Q Your earnings in 1943 were 7.99%?

A 7.99% on the alternative basis.

Q Yes, and when I suggested to you yesterday that it would be less than 8%, I had that in mind because that is what was dealt with by Mr. Baker and in 1944 you had net earnings of 8.52%.

A 8.52%. We were both correct. Yours were less than 8% and I said 9% and I was referring to the over-all average.

Q Now you were able to borrow money on debentures between 1942 and 1943?

A Yes.

Q Approximately, well a little over two million dollars you borrowed during that period.

A Actually we borrowed three million and retired some.

Q At what rate of interest?

A 2½ to 3 per cent, it is a sliding scale.

Q Now is it your suggestion that this money could not have

been borrowed on debentures by the British American Utilities Company?

A As an independent organization, I certainly do not think that the B.A. Utilities could have borrowed money at that rate of interest.

Q Do you think that the British American Oil Company Limited could not have borrowed that money for its subsidiary on debentures?

A The British American Oil Company could only borrow money on the whole of its operations, if a subsidiary company . . . . .

Q If it had never separated the two companies of course it could have raised money by debenture at 2½% and used that money to put in these installations.

A Well any money that it did raise by debentures at 2½ to 3 per cent would have gone into the common pool and been used for the company's general operation and out of that common pool they could have.

Q Yes, and paid 2½% for the money, all right.

Q THE CHAIRMAN: Or could have guaranteed the debentures of the Utility Company.

A That has been done by parent companies, yes.

Q MR. BLANCHARD: And your company, then, would not have had to pay income tax on this money.

A They would pay income tax if the Utility Company borrowed the money, the parent company would have had to pay income tax on the return.

Q That is if the parent company loaned the money but assuming there had never been a separation of this company.

A No.

Q MR. HARVIE: Mr. Donellan, Mr. Chambers I think asked for some information.

A Yes, Mr. Chambers on page 3212 asked if I would examine Exhibit 118 and satisfy myself as to the comparison. I regret that the pressure of work last night did not allow me sufficient time to check this Exhibit to my satisfaction. Certainly a substantial amount of detailed checking is called for, as the details of the two statements are different. I feel the two comparative statements, Exhibit 113 prepared by Madison and Exhibit 118 prepared by me, should be carefully checked. For example, the Teis' appraisal includes meters to the extent of $7,800. I understand no allowance is given on Exhibit 118 for such items. Details of the fittings pertaining to those meters also require to be compared; also, I would request Madison to supply information, if possible, as to how they arrive at and what is included in the "cost of laying" column. So far, I have not been able to identify the amounts. May I suggest that I leave instructions to have this detailed checking done during the recess and then any necessary comments can be made when the matter comes before the Board again.

MR. HARVIE: I think a general comparison would be very helpful to us, and I think also to Madison and certainly to the Board. We have not been able to analyse the information we have sufficiently to allow us to make the comparison and possibly during the adjournment next week, we will be glad to have an accountant check it and we can then make a proper comparison.

MR. CHAMBERS: That is quite satisfactory to me. Mr. Stevens-Guille has checked the statement.

MR. HARVIE: And that statement might be very helpful.

Q THE CHAIRMAN: And I suppose you will be back again sometime, Mr. Donellan, so that we can ask you some questions on it?

A I think so. I expect to be back.

A Mr. Chambers also requested that I give him the information regarding pipes shown on the high pressure transmission lines to Madison plant. I would like to file an Exhibit giving this information. Unfortunately the Exhibit is in two pages. The first is just a running comment and a reconciliation of the various sections. The stenographers have not finished typing it and with your permission I will add the front page but the information is on the one I am presenting now.

Q MR. HARVIE: If it is to be identified now we might give it the number 102 (e) to tie in with the values.

STATEMENT REFERRED TO NOW
MARKED AS EXHIBIT 102 (e).

A The first sheet will be an analysis of pipe.

MR. HARVIE: Mr. Donellan -

A And there is still one other matter arising out of the cross-examination by Mr. Blanchard who suggested I should give some consideration as to weighting the proposed charge to the G. & O. P. on account of distance and again I have considered the horse power basis for allocating the charges in connection with the high pressure lines. I would just like to say after consideration I feel that -

MR. CHAMBERS: I did not suggest horse power. I suggested throughput.

A Mr. Blanchard suggested that I had not given consideration to those two methods and would I turn the matter over and give it consideration. As to weighting the cost of the high pressure line to the G. &. O. P. for distance. I feel that it is not a customary procedure. If we weighted the discharge line we could logically expect a request from certain producers

that is those who would gain, to weigh for distance in the gas gathering line. No attempt is made in the gas gathering lines to weight for distance and it seems to me to create an uncalled for precedent to weight for distance on discharge lines. To be uniform for out-put and in-take does have merit. Similarly the horse power basis method for allocation as between high pressure lines used for residue gas and repressuring gas. This again would be a procedure inconsistent with what I generally understand to be the general policy adopted in the field and in the industry. It would probably commence a cycle of demands for adjustments if we weighted for horse power in one case why should we not weight for well pressure? It does not take as much horse power to compress the gas for a well producing at 100 pounds pressure as it does to compress for a well producing at 10 pounds. It has been accepted all along as fair and equitable through the field and industry as a whole to distribute charges of this nature on a volume basis. Complications and differences would arise with many well operators besides a considerable increase in the accounting procedures necessary.

Then some one suggested yesterday, I cannot recall who it was, but somebody asked me to acquaint myself with the horse power necessary to be used in any computation necessary to make. From enquiry I find the horse power to compress one m.c.f. one minute, from 10 pounds to 170 pounds, that is from the approximate pressure of the low pressure lines, to the necessary pressure to supply the absorption plant intake of 150 pounds is 281 horse power. The horse power required to compress 1 m.c.f. 1 minute from 150 to 400 pounds in respect to gas going to market is 81 horse power, and to compress 150 pounds to 800 pounds, that is the gas used in

repressuring, 150 horse power is necessary to compress 1 m.c.f. per minute.

Q MR. HAMILTON: What is the 10 horse power ?

A 281 - from 10 to 170 pounds.

Q What does 10 pounds denote ?

A That represents an over-all average of the pressure in the low pressure line.

Q MR. HARVIE: I think those are the three horse power factors that would be applied ?

A If we did weight for horse power we would have to consider those are the three factors that would have to receive consideration. From the comments above I did not work out -

Q You gave the figure of 10 pounds, which you say is the average low pressure ?

A I understand the 10 pounds applies for convenience of totals. The last test that I was able to find was actually 7 pounds as I understand but that is the approximate figure.

Q That is the approximate figure, and the 170 pounds is as you say -

A The pressure necessary to build up at the compressor plant in order to deliver at the requisite 150 pounds at the absorption plant.

Q So you take the 150 pounds down stream from the absorption plant and apply the horse power required for the other two services. Now you use the 400 pounds for gas going to the market ?

A Yes.

Q Is that an absolutely accurate figure or is it approximate ?

A It is information I received as the pressure that was necessary to drive the gas to the scrubbing plant to market. I do not know whether it is actual.

Q What about the 800 pounds ?

A The 800 pounds I am informed is the pressure which is necessary to complete the repressuring operation.

Q As it is operating at the present time ?

A Yes. That concludes the references I have from yesterday.

RE-CROSS-EXAMINED BY MR. CHAMBERS:

Q Mr. Donellan I had one or two questions in connection with Exhibit 118 with reference to the matter of meters which you have already mentioned. On Page 31 of Exhibit 102 in the Summary of Values in which the total of $154,545.27 is arrived at ?

A I have not found that reference Exhibit 102.

Q 102. That is Volume 2.

MR. HARVIE: What page did you say ?

MR. CHAMBERS: Page 31 at the bottom of the page is the Summary of Values and the total is arrived at $154,545.27 ?

A Yes.

Q And the second item to make up that total is entitled, Valves, Fittings, Meters, etc., $22,201.67. Can you give me or are you in a position to give me the number of meters that were involved in that appraisement ?

A No I would have to run through the detailed sheets in Volume 2 (a) to have that information.

Q Can you give me the over-all amount included in that item for meters ?

A Approximately $7,800.00.

Q And in that summary on Page 31 of Exhibit 102, there is the item of rights-of-way, surveys and legal expenses of $4215.26 ?

A Yes.

Q Now obviously that is not included or allowed for in Mr. Hill's statement of costs, Exhibit 59 and is not included in Exhibit 118 ?

A Right.

Q And Exhibit 118 does not include anything for meters either ?

A No and responses like that to the extension of time to make the comparison.

Q You probably did give it in your examination in chief or some of the other cross examinations but can you give us a general idea again of what the item of installation costs include . It totals $65,686.93. I have in mind the nature of the work not the figures.

A I really have not got any more information on that than is shown on Page 34 where Mr. Teis outlines what he included as installation costs. On the basis of the comparison shown on Exhibit 113 I took Mr. Teis' appraisal.

Q What I am getting at is this and it is subject to further checking on your part, because I realise you have not had time to go through all this Exhibit 118 and Mr. Hill's Exhibit 59, but my information is and a careful examination indicates to me that Mr. Hill's Exhibit 59 and Exhibit 118 omit items for meters and rights-of-way and otherwise those Exhibits 59 and 118 include all the items that are shown in the summary of values on Page 31 of Exhibit 102. Now I realise that you have not had an opportunity of checking that, but if you will assume that for a moment.

MR. HARVIE: Exhibit 31.

MR. CHAMBERS: Page 31, Exhibit 102.

Q Now I am trying to reconcile Exhibit 118 with the item of $154,545.27 and if you take Exhibit 118 the total arrived at is $91,726.02, the last figure on the last column ?

[illegible]

[illegible]

[illegible]

A Yes.

Q Now I am suggesting that there should be added to that $7800.00 for meters, less 30%, the rate of depreciation that is used, which leaves the meter depreciated item of $5,460.00, and we should add that on to the $91,726.02, and we should also add the further item that was omitted on here of $4,215.26?

A Yes.

Q And that gives us a total of $101,401.28?

A Yes.

Q Then in order to complete the comparison Mr. Hill allowed a 9% overhead?

A Yes.

Q So that that total figure of $101,401.28 there should be added 9% for overhead or $9,126.12.

A Yes.

Q Which gives us the grand total of $110,527.40, which I am suggesting to you is the figure to be compared with $154,545.25?

A Without further examination I would not agree with you, because on page 31 of 118, 102, I picked out the meters because they were easily identifiable, $7800.00. There are orifice plates flanges and various parts and fittings appertaining to it, and that was adding to the difficulty of arriving what those particular items amounted to. So that there is some unknown item to be added there.

Q The metering could not exceed $20,000.00 in any case, would it?

A I have no means of estimating what it would amount to or if there are any other points I want to add. It might be 20 or more or less than that.

Q Well then, subject to the figures for the meters being actually as they are there, the basis of the comparison would be correct.

A I do not want to leave the impression that the only thing I

an challenging is meters. Meters happens to be the first thing that I ran up against a stone wall about 11 o'clock last night. There might be other items I would want to challenge in that comparison. Meters are not the only ones by any means. At least, I am not prepared to say it is the only one.

Q Now, you will recall that Exhibit 59,which is the unit cost statement of Mr. Hill, really attached to Mr. Hill's report, Exhibit 59, he certainly indicates that he is showing all the costs here. And the first item is pipe itself, and the next coating, tar and wrapper, and the next valves, fittings, drips, casings, etc.?

A Yes. Mr.Teis approached it by listing so many, by not listing so many. He just took a meter, took a bare meter and he made it $178.00 if my memory is correct. Mr. Hill took the over-all cost of $200.00 for the cost of installing meters and in some other place the cost of the installation labour is included. In Mr.Teis', the cost of installing and labour is included with the details of valves, fittings. And nothing less than the details will answer your question.

Q I quite understand that. I quite understand the question of the meters and know what it is, but leaving aside the question of the meter for the moment, I am trying to ascertain from you what other things should be taken into consideration. I am saying that on this attachment to Exhibit 59, Mr. Hill estimates first the pipe, the coating, valves, fittings, drips, casings etc. He estimates all those things and any other attachments that would go with the meters, and does it occur to you that that could have been added?

A Well, right at the moment.....

MR. HARVIE: Excuse me. The last thing in the

world I want to do is in any way to interrupt the cross-examination, Mr. Chambers, but I think you are running into something exactly as we did last night, that in trying to analyze these things we could not get anything in its entirety, and that is why we made the suggestion that we get together next week and see about it. As far as we are concerned, we are willing to complete it.

MR. CHAMBERS: The only reason I am pressing it I was wondering whether Mr. Donellan would be back. Will Mr.Donellan be back here?

MR. HARVIE: Oh yes.

THE WITNESS: As a further example, on page 14 of our Volume 2A, Mr.Teis reports 117 man hours which applies for construction labour , and thatcovers the installation of several bits of equipment in addition to meters, and it is only by going into a conference between a representative from our Company and one of yours, that we can come to an agreement as to the allocation of those charges.

Q MR. CHAMBERS: I know, but I want to see if we can come to an agreement on the general principles, and see if there is anything omitted from the statement. Have you got Exhibit 59 in front of you?

A No, I have not.

Q Here is a copy. You see the first three lines plus the total includes all the items for our materials?

A Yes.

Q And then the next heading is "Construction Costs", and they are listed on Exhibit 59 what those consist of?

A Yes.

Q And the point I am making is this, that this Exhibit 59 is

the basis for what is included in Mr. Hill's appraisal. Now, if he has left something out in Exhibit 59, something is not in his appraisal, and so far as Madison is concerned if something has been left out it is too bad for them. It should be the appraised value of their complete system.

A Yes.

Q So that I am suggesting for the purpose of the comparison that you should not assume that Exhibit 59 covers everything so far as Mr. Hill's approach to this is concerned except the meters.

A Except the meters and any installation.

Q Well we will leave the matter at that. This includes the installation?

A This includes the installation?

Q There is nothing else in our appraisal covering it.

A That is one of the unknowns we were up against last night.

Q Now, Mr. Donellan, will you turn to Exhibit 102(A), which is your Volume 2, Supplement 1, and in particular to page 12?

A Yes.

Q I notice on the sixth line from the top a credit item in respect of 2,597 feet of 8-5/8ths inch pipe in the amount of $2,152.17?

A Yes.

Q And the unit cost of that by way of division is $.8287 or 82.87 cents. Then if you turn back to Exhibit 102 on page 8, I understand from that that that item went in at a unit cost of $.98 or approximately 99 cents. Now can you account for the difference?

A Yes, that is included in the statement I have filed this morning. You will find those figures are included there. That is why I have shown the reconciliation.

Q Which statement is that? 102(E)?

A When the covering letter comes up from the office I will have it.

MR. PARVIE: Oh, I beg your pardon, I thought you had it.

A I thought that was what you were handing around.

Q Yes.

A You will notice on the second sheet, Mr.Chambers that has just been brought to you, that you have the $2,152.00. That includes the actual cost of each length of the pipe, and it comes down to $110,000.00, and that $110,000.00 consists of the amount on page 8, so that it is absorbed in the $110,000.00.

MR. CHAMBERS:

Q Then without going into the details, you say that this Exhibit 102(E) covers it?

A The answer to your question will be found in Exhibit 102(E).

Q And that in that the pipe that went in at a unit cost of about 99 cents per foot has been credited?

A Has been adjusted to come out at the same price.

Q Has been adjusted?

A Yes.

Q Now Exhibit 102(A) which is Volume 2, Supplement 1, will you turn to page 20 please, that in effect shows the estimated future expenditures of $6,418.00 including the overhead, and of this amount $3000.00 is for contingencies. Now can you tell me what the present situation is, I mean, this is estimated as at April?

A No, I am not up to date on the expenditures by sections. I am only prepared to say the total provisions for contingencies is ten thousand and has not yet been over run, not yet been used up. But coming down to the allowance for contingencies

by particular items I have not got that information.

Q What I am getting at is this, this is an estimate made in April '45 obviously before the work was completed?

A Yes.

Q And has the work been completed?

A I understand it is pretically completed now.

Q And that in due course before the Hearing is over the actual will be available?

A Yes, before the Hearing is over the actual will be available.

(Go to page 3236).

Q And that same Exhibit 102(A) on page 22, you deal with the computation of interest during construction and in the 3rd last column the rate of interest 15.83%. And on page 3 of the same Exhibit you indicate that that is in accordance with standard Public Utilities procedure. Interest on capital during construction has been calculated and included as an item of the cost of construction. As I understand it, the effect of this statement that you already made this morning is that you are not now asking for interest during construction at the rate of 15.83%, is that right?

A Oh yes. I want to make that clear. That is a wrong impression. I am still asking for interest at 15.83% but I am conceding that there is a technical point as to whether this formula can be construed as I said during 1945. I have taken, as you note in the one I filed this morning, Mr. Blanchard's own computation after working my interest out at 15.83% and I am now making a subsequent adjustment on that showing that is equal to an over-all rate of 3.95 and in view of this technicality, sooner than have the question arise, we will waive the proportionate part of interest during that period. But I still maintain that question can be argued that we are not taking interest during construction. It is one of those border-line cases. My original computation took the interest from July 1st to December, 1944 on the basis shown here.

Q Now, Mr. Donellan, with reference to your page C about public utility procedure, I gather you have had some experience or have done some reading in connection with that matter, is that right?

A In general, yes.

Q Yes, and as I understand it the item of interest during construction is usually regarded as one of the items going to make up what they call general overhead when you are building a project.

A It is by some companies and other companies it is not. I do not think I can say it is general. I know I personally worked in two cases, one where interest during construction was followed through on the basis that Madison have got it, part of the overhead, and in another case as a separate item worked out in addition to overhead on the use of the funds actually used. It is common practice to take it as overhead but I do not know that I will be prepared to go so far as to say it was general practice.

Q Is it not pretty well uniform practice so far as regulatory bodies are concerned?

A I do not know.

Q Well you make reference to that in your report.

A Yes. It is according to public utility procedure.

Q What information did you have when you were talking about public utility procedure?

A The idea I had was, is it not customary to include as part of the rate base all capital costs which are approved, including interest during construction? I am not saying that the standard public utility procedure is the method that I apply. I am talking about it being standard public utility procedure to include interest on an item of capital costs.

Q Now, in arriving at a rate base, a regulatory Board proceeds to ascertain first of all the value or amount to be included in respect of the fixed assets.

A Right.

Q And if they are taking into consideration the reproduction costs.

A Yes.

Q They take, I suggest to you, an item that Mr. Hill in effect took in Exhibit 59, that is cost of material and the actual cost of transporting it there and the actual cost of putting it in.

A Yes.

Q Then in addition there are certain intangibles or overhead costs that are incurred or would have to be incurred in constructing such a plant.

A Correct.

Q And those intangibles, I suggest to you, are generally referred to in public utility parlance as overhead.

A Correct.

Q And that item of general overhead includes, in public utility parlance, general engineering costs for designing and overseeing and conserving the project. Another item, as Mr. Hill says, is the interest on the money that is tied up during the construction of the project and before it is put into operation and starts to earn.

A Quite right.

Q And other items of insurance and taxes that we have discussed. But what I suggest to you is that item of interest during construction is a different matter altogether and is measured in a different way than the rate of return to be fixed on the rate base after the company gets under way.

A Well in connection with that suggestion, I think there is this to point out, that if a company is starting out and taking an existing plant, or one the majority of which is existing, the

calculation of interest during construction is calculated on general over-all overhead basis. In the case of where it is new plant and new construction entirely, where you can work down to say that my money was out so many days, weeks or months, that in those cases it is worked the other way. Coming back to our own submission, you will find that there is no allowance for interest during construction in the appraisal of the old gas gathering plant. It was an item of cost and the old gas gathering lines that was an item of cost but that was the way I felt about it, "oh well, make an allowance for 10 per cent overhead." In that case I felt that 10 per cent overhead could quite fairly be broadened as inclusive of the general over-all interest. But not in the case of new, where the money was started to go out and that I could get a direct connection.

Q Probably I can boil it down to this, Mr. Donellan, I have no quarrel with you that you are entitled to interest during construction. But the difference I am submitting to you is this, that is the rate of 15.83%. Now can you tell me from your own knowledge of any company, either public utility or otherwise, that has been allowed 15.83%?

A No.

Q Interest on its money during construction?

A No. But I can go so far as to say that I understand - I cannot even quote you the cases here - that the principle to apply is the current earning rate of a utility as applied to the period during construction, whatever is set by the Board.

Q You have cases?

A I understand from discussion - I have no particular knowledge on that. That is my impression from discussion with various

parties.

Q Public utility experts?

A That a rate base can and should carry the amount of interest during construction that is part of the rate base.

Q You cannot refer us to any specific authority?

A I cannot refer you to any specific case unfortunately. It is just a general principle that I argue to myself, if my money, if the company's money is worth 15.83% on the 1st of January, 1945 surely the money was worth that same amount of money on December 31st 1944.

Q Well then I am assuming that you are charging interest during construction over a six-months' period.

A Yes.

Q Now, that implies that only six months was engaged in the period or that it is used and you take the half-way mark.

A I take it as being the amount of time that the company allows the use of money spent during construction.

Q Now what was the actual period of construction of this plant?

A Approximately July 1st, 1944 to March, 1945.

Q That would be about 9 months?

A Yes.

Q Now I am suggesting this to you, that the usual practice is that if a job takes a year to complete, the first part of the job you have hardly any money out and you do not have to borrow money for that period.

A Correct.

Q As you go along you get more money out and if the job takes an over-all period of a year the interest during construction for that period is usually applied to 50% of the period. Did you ever hear any ideas as to that?

A Yes, I have heard of that. I have come across that 50%

period. I took 50% of the total dollars.

Q Then if you were actually engaged in construction for 9 months the interest on the total amount involved in the job, applying that principle

A An over-all percentage on 4½ months. The net result is shown on my statement here that the over-all rate is, while I have used the 15.83% as my rate of calculation, the over-all rate on the money is 3.95.

Q Now merely for the purpose of our discussion, I am assuming that you took a year. Or in other words you are going to get interest for six months and I take it that that works out to the general overhead, assuming that you follow me on that line of 17.91%. I make that this way. For every $100 spent you get 10% for administration and supervision that you have included.

A Yes.

Q And that you would get 7.91 which is half of 15.83.

MR. BLANCHARD: It is half the period and half the amount.

A Yes, half the period and half the amount but the fact remains that Exhibit . . . . . .

MR. CHAMBERS: In other words, it is a quarter.

MR. HARVIE: That is where the 3.9 comes in.

A I say the fact remains that Exhibit 102 shows the total interest amount, before the correction now this morning, of $28,000 on a total expenditure of $728,000 which 3.95% as compared against the 3% Madison included.

Q MR. CHAMBERS: And that is based still on the 15.83% as the cost of the money for a 12-month period?

A The basis of the computation is 15.83% but the net result is 3.95%.

Q Turning to Exhibit 113(A) which deals with operating expenses.

That is Volume 3, Statement 1.

A What page?

Q Page 8, Exhibit 113(A). I notice one of the items there, operating costs, $480 taxes on high pressure line. What kind of taxes had you in mind there?

MR. HARVIE: Have you got the page you are referring to?

MR. CHAMBERS: Page 8.

A That is an allocation of $620 taxes.

Q No, not an allocation. Oh yes.

A Yes. No, you are right. Total taxes are 3957.

Q I am referring particularly to the $480 taxes on that high pressure line.

A That is the original estimate of what the tax bill was going to be for the year.

Q What is it, property tax or what?

A Pipe line tax.

Q Now that is just the point I am coming at. My understanding is that there is no tax, no school tax on these pipe lines at all.

A That is based on the estimate that I got from Calgary. I will see how the actual charges came through and I will have to give you the details.

Q My understanding is that the pipe lines in the ground, there was a special Act at one time which was superceded by the tax agreement between the Dominion and the Provinces.

THE CHAIRMAN: Pipeline Taxation Act.

MR. CHAMBERS: In other words, the higher income tax of the Dominion was supposed to take care of these things.

A It is not income tax.

Q No?

A It is the Calgary office estimate of what the taxes incidental to this operation would be and I am afraid I just accepted their estimate.

Q I am just raising the point . . . . .

A We will get it before it gets into operation. We shall need satisfaction that the assessments are in order.

THE CHAIRMAN: These pipe lines are still assessed, the assessment is kept up but no levy is made by the Province or by the Municipality.

MR. CHAMBERS: Or by the school district.

THE CHAIRMAN: Or by the school district or by any local taxing authority until such time as the agreement between the Dominion and the Provinces with respect to income tax is at an end or is changed. The assessment is still being kept up, so that if the time comes when the tax is again imposed everything will be up to date.

MR. BLANCHARD: Does that apply to all these items across the page?

MR. CHAMBERS: No, to the pipe lines below the ground.

(Go to page 3244)

Q And on that same Page 8 Mr. Donellan there is an item for truck expenses $1415.00. Now is that just out of pocket expenses ?

A That is the cost of operating the trucks used in the various operations. The actual distribution of the cost is on the use of the truck. This Page 8 of course was the forecast of the estimate and it was estimated that the high pressure line would need $1415.00 as a specific allocation for truck expenses.

Q What I mean, does that include depreciation o n rate of return?

A On the truck ?

Q On the truck.

A No the original working sheets are here. I remember we took it out to complete the summary of it.

Q And then on the same page there is an item of office expenses, total $8,080.00, the last column. And of this $1271.00 is allocated to that high pressure line from the British American plant to the Madison scrubbing ?

A Correct. That is an example, Mr. Chambers, of the point that I was trying to make in the original estimate. The total amount of office expense was estimated as being $8,000.00 of which $1,271.00 was applicable to the high pressure line and just referring to the March statement here - the seven months operating statement - the total office expense for the seven months has been $3,009.00, just a little less than the estimate but in practice the amount charged to the high pressure line is $3,025.20.

Q Just on what basis do you make that allocation ?

A That allocation is in the ratio of the expense up to that point. The total expense for office expenses, the ratio of

expenses up to that point is used as a distribution.

Q Now the main office expense in connection with that line, or one of the main items, would be reading meters and things of that nature would it not. Is that included ?

A No that would not be office expense. You say the office expense, in the actual office expense with the high pressure line?

Q Yes.

A Oh I cannot visualize of any direct office expense in connection with the high pressure line. There would be a lot of indirect looking after the trucking, car and expenses and payroll.

Q On what basis do you distribute the item of $21,340.00, labour cost. The first item on the last column ?

A In practice in the actual use of labour. This was the estimate as to where it should be incurred.

Q Now I think in answer to me yesterday Mr. Donellan, in Volume 41, Page 3216,-

"Q And as I said before the 28 pound pipe according to Mr. Hill's unit figure was 2.057 ?

A Yes, 2.057.

Q And the lighter, the 16 2/3" 1.40 ?

A Yes. "

Now in Exhibit 102 (e) which you filed today you gave the laid down cost of 8 and 5 inch used, 28 pounds as 2.0819 ?

A Yes, also I have some further down at 2.2525.

Q Now what is the difference ?

A Yes, we bought pipe wherever we possibly could. It was a battle to get pipe at the time of this installation for I noticed last night the freight charges fluctuate tremendously. Some of this pipe came from long distances. You will notice

that apparent inconsistencies on Exhibit 102 (e). The first line is 28 pound pipe used which actually cost laid down 2.0819 a foot and further down in the main line you will find that they actually used - got some pipe 8 5/8 - 32 pound new for 2.25.

Q 9 inch ?

A 8 5/8 inch.

Q 9 inch new, 2.534. Now have you any specific reports from your engineers that you employed to inspect this pipe as to its condition when you talk about used pipe ?

A I think that was the -

Q How near to new ?

A How near to new it was - whether good, bad or indifferent I do not recall ever having seen any report from an engineer but that is why we had to incur that expense of $1800.00, I think it was referred to as yesterday to make sure we had to get what pipe was available on the market and we had to take second hand pipe because the other was not available and appointed these engineers to see it was good value and suitable for the condition. As we found yesterday there was one length did not stand up when it was in.

Q MR. HAMILTON: As a matter of information those inspection report invoices have attached to them reports on the condition ?

A They have the report. I will be glad to file this.

Q MR. CHAMBERS: I might suggest that would be of some interest to the Board ?

A I can have that attached when they are making the comparison.

Q Thanks.

THE CHAIRMAN: Any further cross-examination Mr. Steer ?

MR. STEER: I have a few questions sir.

RE-CROSS-EXAMINED BY MR. STEER.

Q Have you Exhibit 114 in front of you there Mr. Donellan ?

A 114.

Q That shows total gas marketed by your Company for the seven months of 1945, as being 1,845,000 odd.

A Exhibit 114.

Q Exhibit 114, yes, Page 2.

A There is no dollars on my volume on my statement.

Q No I am talking about 1,845,594 m.c.f. gas marketed by your Company in the seven months of 1945.

A I am afraid I have not got the right statement in front of me. The one I have marked 114 is "Gas Volume".

MR. HARVIE: That volume is headed "dollars" not "m.c.f."

MR. STEER: I did not say "dollars", I said "m.c.f."

A I did not hear the million.

Q That is what I said.

A I am sorry I did not hear it.

Q Now then if we figure the probabilities for the year 1945 and multiply that 1,845,594 by 12 sevens you get a probability of a market of 3,163,000 m.c.f. for the year 1945 ?

A Yes on the assumption you are carrying on on a uniform basis.

Q That would be right. Now if you will turn to your Exhibit 113 (b) you give us there I think the yearly cost for the year 1945 of gathering that gas at $140,850.00, is that right.

DR. BOOMER: What page ?

MR. STEER: B 5 - 1, the first line, Cost of Gathering.

A And total cost of $140,850.00, yes.

(Go to Page 3248)

Q Now if you will apply that $140,850.00 to your calculated 3,163,000 cubic feet, that works out to 4.45 cents per m.c.f for gathering for theyear 1945. I think perhaps the best way would be if I told you what my calculations are?

A That is approximately correct.

Q very well. Now then, look at the cost of transmission in the same statement?

A Yes.

Q For 1945 is $80,929.00.

A Yes.

Q And if you apply that to your quantity - perhaps I should say that the $80,929.00 is arrived at after crediting $26,272.00 charged to G.O.P.?

A Correct.

Q Is that right?

A Yes.

Q Now will you look at your Exhibit 113 (C)?

A Yes.

Q And that shows $6,322.58 as the amount for five months received from G.O.P.?

A Seven months.

Q Well, I only estimate your receipts for five and not six months. I am instructed that the Conservation Board's records show that the gas was delivered only through five individual months?

A Yes, I see.

Q Perhaps you will tell us how you get your $6,322.58, how did you calculate that?

A That was broken months, as I recall it, one month at $322.58, and, I forget, five months at $1200.00 or six months at $1200.00.

I do not recall now, you do not mind my referring to it, do you?

Q MR. STEER: No.

MR. HARVIE: The actual case is that the gas has come down from the middle of January and has been going ever since, and it would be more than five months, regardless of the information Mr. Steer has.

MR. STEER: Perhaps Dr. Boomer will be anxious to protect the interests of the Conservation Board and will have something to say on that.

DR.BOOMER: I did not get your remark. What was your reference to the Board?

Q MR. STEER: I am going to ask you, Mr.Donellan, if you will tell us exactly how that $6,322.58 was computed?

A It is the proportion of a month, $322.58 for the month of January, and the rest of it was six months at the rate of $1000.00 permonth. That is the rate included in Board Order No. 9. That is an interim rate pending this Hearing.

Q There is a broken month, $322.58, and six monthsat $1000.00 a month?

A Yes, correct.

Q Then if we make our calculation for the whole of the year you would expect that your credit from the G.O.P. would be double that amount of $6,322.58, that would be $12,645.16, is that right?

A It would be $11,322.00, because we have just got five additional months to go, that is if we are still operating under the Interim Order.

Q On this rough calculation I figured it as double, and it will perhaps answer the purpose. The real cost of transmission

then would be this $80,929.00 less the difference between your twenty-six thousand odd and this figure which I have given as twelve thousand?

A Correct.

Q Now, I figure that is approximately $95,000.00?

A Yes, that would be about it.

Q And that would represent a cost of 2.98 cents per m.c.f?

A Yes, a little less than 3.

Q A little less than 3?

A Yes.

Q Now then you have got a figure there of 4.45 and we accept the figure of 2.98. Now, would you add to that 2 cents per m.c.f. for the purchase of gas, and another 2 cents for the scrubbing of gas? And then we will take your exhibit 113(B), cost of repressuring for 1945 is $56,768.00?

A Yes.

Q And that works out on the quantity for the year of three million, one hundred and sixty-three thousand to 1.79 cents. Now those figures are arrived at after giving effect to all charges to outside parties, that is to say, after calculating the amount that is to be charged to the absorption plant, the amount to be charged for water?

A Yes.

Q And according to my figure it gives a total of 13.22 cents per thousand, which has to be paid by somebody other than the British American Company.

A According to our submission.

Q Pardon?

A According to our submission.

Q Yes, according to your proposal. And I gather from answers you have given that your Company has no suggestion to make as

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to how that 13.22 cents ought to be divided up?

A Right.

Q Now for the year 1950 and using the same sources for all information, our figure is that the charges against that gas are going to be 15.04 cents, and I suppose you will not quarrel with that?

A You have made the allowance for the reduction in volume which gives the increased cost. What is the total?

Q 15.04 cents.

A There is something there, with regard to 1944 I do not know whether it will go on for the rest of the months of the year.

Q You mean for 1945?

A I cannot just say what the volume is going to be for the remaining five months.

Q Perhaps we need not go into that. Then for the year 1954 making calculations in the same way, the figure arrived at is 12.3 cents?

A Yes.

Q And I suppose you would not quarrel with that?

A No.

Q Now would you look at your Exhibit 114 which shows, I think, gas paid for by Madison for the seven months of 1945 as being one million, eight hundred and forty-five thousand odd cubic feet?

A Yes.

Q M.C.F. And applying our figures to that you get a figure again of three million, one hundred and sixty-three thousand m.c.f. as the estimate for the year 1945.

A Yes.

Q And then the cost to your Company on your submission as

gathered from Exhibit 113(B), that is your volume 5, gathering, $140,850.00?

A Yes.

Q Delivering to Madison $80,929.00?

A Yes.

Q Repressuring $56,768.00, a total of $278,000.00.

A Yes.

Q That is corrrct?

A Yes.

Q Now suppose that gas, 3, 163,000 m.c.f. costs 2 cents, that adds $63,000.00 to the amount, and makes a total of $341,000.00?

A Yes.

Q That is right?

A Yes.

Q Board Order No. 9 allows your Company a payment from Madison of 77% of the average price received by Madison?

A Yes.

Q Now assume that that average price is 7 cents, that would be 5.4 cents per M.c.f.?

A Yes.

Q And applying that 5.4 cents to the 3,163,000, you get $170,000.00 that is correct is it?

A Yes.

Q And that means that there is a likelihood on the 1945 operations of your Company of a deficit of the difference between $341,000.00 as costs and this $170,000.00 revenue?

A Yes.

Q And I suppose that $171,000.00 would have to be perhaps added to the rate base, that is the suggestion I think?

A That suggestion has been made.

Q And your figures, the figures that I have just given you with regard to the total costs of this gas over the period would be increased by the addition of that $171,000.00 deficit?

A Yes.

Q The figures would be that much worse?

A Yes.

Q That is all.

THE CHAIRMAN: Anything further, Mr. Blanchard?

MR. BLANCHARD. Nothing further.

THE CHAIRMAN: Mr. McDonald?

.....

CROSS-EXAMINATION BY MR. McDONALD.

Q Just one thing, Mr. Donellan, as I understand the book value of the gathering lines that are followed by Mr.Teis, and as carried on your books is $27,000.00?

A Yes, that is correct.

Q Now the original cost of those installations is depreciated in the books of the company pursuant to a special arrangement with the Income Ta Department, I believe?

A Yes.

Q Now, have you given consideration to this point, that where the Income Tax Department has allowed special depreciation on this type of equipment, and on subsequent sales, the sales price received exceeds the book value, that the difference between the sale price received and the book value is apportioned to income for the year in which the sale is made?

A I did not quite follow you. I thought I was just so sure of the point that you were going to make that I did not follow you, and then you changed it at the end. Would you mind repeating it?

Q Yes. In a case in which the Income Tax Department has allowed special depreciation by arrangement?

A Yes.

Q Upon the subsequent sale of the articles that have been depreciated under the special rate, in this case 20%, the Department also rules that upon the sale being completed the difference between the book value and the sales price realized, in this case the difference between $27,000.00 and $154,000.00, would be apportioned to the income of the vendor in the year in which the sale was made.

A Well that must be a special departmental ruling because I certainly have had cases where that was not done.

MR. HAMILTON: I think that applies to special depreciation allowed.

THE WITNESS: Under the Wartime Act this is a departmental arrangement, this 20%.

Q MR. McDONALD: I am putting the question to you because I have instances in the same period of time prior to the war on the same grounds exactly as you have made on the application, and this department is ostensibly at least making that ruling. Now, the consequence, Mr.Donellan, of that if I understand it right, that if that should be the effect, if that should arise, and it would be finally assessed and paid by the British American Company, the net result would be that the British American Company would pay 40% at least, if not 100%, on the excess tax quota of moneys in cash in 1945 which it would not realize in ten years from its system. Which would not be returned in ten years.

A In other words, if the ruling that you referred to happens to be in effect, it would penalize the users of this system. That

would be the net result if that ruling would be made. I know of certain cases where the rulings have been made other wise. The case that you refer to must be an inter-departmental ruling.

Q It has happened to machinery in Turner Valley.

A I have had experience with three or four companies where similar things have arisen and in each case we have managed to get a satisfactory tax adjustment with the Tax Department on each one. And I never have run into it like that.

Q The point I make is that it would be reasonable particularly in the British American, to value those assets at their book value as it would then save taxes.

Q There must be some reason for that.

(Go to Page 3256).

Q Now with regard to the book value of those assets is it not true that insofar as the internal calculation of income tax of British American Utilities, the only depreciation British American Utilities can claim on the income tax return will be based on $27,000?

A If the Utilities operation makes an independent income tax return, yes. But I am not certain that that is going to be the procedure.

THE CHAIRMAN: Don't you have to, Mr. Donellan, a separate company?

A Under the conditions of the Act possibly, yes. But application can be made under special conditions.

THE CHAIRMAN: Well we will take our adjournment now.

(At this stage there was a short adjournment.)

CROSS-EXAMINATION BY THE CHAIRMAN.

Q THE CHAIRMAN: Mr. Donellan, yesterday Mr. Blanchard discussed with you Voucher number 424.

A Yes.

Q An item for dismantling towers at Coutts?

A Yes.

Q At a total cost of $3,265. What was the capital cost of the item itself apart from the dismantling?

A I do not know. That equipment was part of the original installation of the Coutts refinery on which we never did get a break-down by individual units.

Q Now when the tower was rejected by the boiler inspector, was there any additional cost involved in complying with the boiler inspector's demands?

A I do not know.

Q You would anticipate that there would be?

A Yes. My recollection is that it was a case of putting a few extra flanges on and that would definitely be in the cost.

Q Would you get that item for us, Mr. Donellan, please?

A I will.

Q What was that equipment used for?

A I do not know its particular use. I know I have seen it down there. I was with Mr. McCutchin when he pointed out this particular tower which had been rejected. I am not familiar with its actual use.

Q My information is that the equipment was used for scrubbing the gas. Do you know if that is right?

A I believe that is correct.

Q My information further is that it turned out to be completely inefficient and had to be discarded or converted into a Girbitol unit, is that right?

A I know they are changing to a Girbitol unit.

Q I know that because the Board authorized it to be done.

A Yes.

Q Is it the case that the cost of operating that equipment as a scrubber was very high?

A I do not know. That is the amount which is shown - that is the reason, I presume, that we take the cost of the scrubber and that is the point where we show it as a separate item. Whether it is higher than what it ought to be I do not know.

Q Now if we assume that the equipment was inefficient, that is that it did not scrub the gas efficiently and if we assume that its operating cost was high and if it was rejected because of those reasons and a Girbitol unit installed, who should pay the cost of the original equipment?

A In my opinion it is still part of the public utility operation.

It was built with certain ideas in mind which in practice did not turn out to be in line and did not deliver the efficiency but I do not see why the Company should be saddled with the initial cost.

Q DR. BOOMER: Mr. Donellan, would you have prepared for the Board a statement showing the expenditures made at the low pressure compressor station on account of the fuel scrubbing unit and the Girbitol expenditure; similarly a statement showing the expenditures on the fuel scrubbing unit at the high pressure station and a similar statement for each station covering the cooling water installation. It would also be useful if you had your engineering department, either here or in Toronto, estimate the cost of such installations new.. I would like also to have included in that information the specifications in the sense of giving us volumes of gas scrubbed, the capacity of the plant to scrub gas and the capacity of the water system.

A Right.

Q THE CHAIRMAN: So that what happened to the scrubbing unit is another engineering hazard?

A Yes, in my opinion.

Q For which the consumer of the residue gas must pay, less 15% contributed by the British American Oil Company?

A Not necessarily the consumer. However the Board divides the cost. Each of these parties who carry the cost will have to carry their proportionate share of . . . . . .

Q The engineering hazards?

A Of those hazards, yes.

Q Now you discussed heaters with Mr. Blanchard yesterday.

A Yes.

Q Can you tell me what the difference in cost would be if the

heaters had been put in when the line was constructed as compared with the cost of putting the heaters in after the line was constructed?

A I will have to make enquiries, I do not know that.

Q Now Mr. McCutchin's original estimate in round figures was $450,000.

A Yes.

Q And the final result is approximately $950,000.

A Correct.

Q And if we make an allowance for the Gentry contract, which the Board authorized and if we deduct items such as administration $15,000, and interest during construction, and the high pressure gathering lines, then Mr. McCutchin's estimates were out by approximately $300,000 in round figures, Mr. Donellan.

A Well I have an Exhibit that I was bringing, that was coming out through direct examination on that particular point. Shall I go into it now with you?

Q Yes. I would like to have the figure and give me the percentage of the hazard or error, whichever it may be, which caused the increase, related to the increase in Mr. McCutchin's estimate.

A Of the $972,000 the new expenditure accounted for $786,437. Mr. McCutchin's original submission did not include anything for the high pressure gathering system or water system.

Q Or interest during construction?

A Or interest during construction.

Q So that the actual figure on the finished construction as opposed to the estimate is . . . . .

A Well I have even taken the hazard of the interest during construction. I was just explaining that. So I am comparing $786,000 against the original estimate of $525,000. I think

you will recall that there was an approval by the Board to the extent of $44,000 . I only have a reference here, "Amendment to Original Estimate - see letter of Board, June 15, 1944." which increased the original estimate of $480,000 to $525,566. Now then, that $525,566 of the $786,000 that accounts for an increase of $260,000 of which the over-expenditure is $163,000 or 31.06%. The adminstration charge, which admittedly was not included by Mr. McCutchin, $68,000 or 13.11%, leaving net to be accounted for $260,871 or 49.63%. Now the shortage in market conditions in connection with pipe where we had to instal larger diameter pipe or pipe other than that specified by Mr. McCutchin in the original estimate, because he could not get what he wanted, accounted for $50,525 or 9.61%. The Gentry contract exceeded Mr. McCutchin's estimates on labor by $77,000 - in each of these cases I may say I have added to the estimate plus administration plus interest - that accounts for $77,263 or 14.7%. With the change in diameters of the Pipe there was a corresponding change in the diameters of the valves and fittings, etc. I could not break that down for installation but including installation that cost over $23,000 or 4.4%. So that of the $260,000, 28.71% I feel is explained by conditions with which all parties were familiar. That does leave us an over-expenditure which I have broken down as far as I am able to. The heaters accounted for $21,000 or 4.1% and expenses incidental to rights-of-way, $586 or .1%. Compressors and compressor stations accounted for $78,173 or 14.88%, leaving us anallocated items $9,630 or 1.83%. That is the analysis as far as I am able to make it.

Q Is it not the case, Mr. Donellan, that engineers, when they are preparing estimates, allow, or rather they base their estimates on the then-known prices and labor conditions?

A Generally, yes.

Q And usually add 10 per cent for contingenies ?

A That is a common practice.

Q In this particular case your contingencies have amounted to 49.63%.

A Well the figures I have broken down.

Q Quite so.

A The contingencies that developed were enormous.

Q 49.3%. Now Mr. Blanchard dealt with five different engineering hazards: condemned pipe, heaters, installations like the spray pond, work done and abandoned and the scrubbing tower that we have already discussed. How many more hazards of that kind were there?

A I do not know of any more. We will have to examine it but I do not think Mr. Hamilton missed giving an example of practically all types that he found.

Q Now were Mr. McCutchin's estimates submitted to your Head Office before they were finally passed on to the Board?

A I do not know. I assume it would be. The company would not embark on a half million dollar project without getting some detailed information.

Q And they have a charge of $15,000 for items of that kind. Are Mr. McCutchin's working papers available?

A Yes.

Q Can you produce them?

A Well I will have to look for them.

Q Well we would like to have them produced. Was the company satisfied that Mr. McCutchin's estimates were proper and reasonable?

A Well I can hardly get . . . . . I can only say I assume they

have been; otherwise they would have taken exception to the estimates and they would have been revised until they were acceptable.

Q So that we can come to this conclusion that since Mr. McCutchin prepared those estimates and since they were submitted to the Head Office and approved by Head Office, we can come to the conclusion that his estimates must have been reasonable and accurate.

A The Head Office must have thought they were, yes.

Q And from those reasonably accurate statements, we emerge with a 49% engineering hazard increase in cost.

A Well I think the fairer percentage to use would be 20% and not 49% because after all the difference of pipe. This pipe, I assume, was available when Mr. McCutchin made his original estimate but it was not available at the time we built it. I know the trouble that they had getting the pipe. And the Gentry contract. When the original estimates were made in the latter part of 1943 we were under war conditions but Mr. McCutchin certainly thought he was going to construct that line with local labor but he had to turn around and get the Gentry people in.

Q There is no argument about the Gentry contract.

A But it is included in the 49%.

Q Now the original cost of your high pressure gathering lines was 117,000 dollars. But that was built in 1936.

A 1936.

Q It is now valued by Mr. Teis at reproduction cost of $184,000.

A Yes.

Q The percentage of increase is 60 ?

A Yes.

Q Now Mr. McCutchin made his estimates in war time. Can you explain how his estimates could have been accurate with the percentage of engineering hazards that have arisen since the difference in the cost of your high pressure line in 1936 and reconstruction new in 1945 or 1944 is only 60% ?

A Well I know that Mr. McCutchin made his valuation long before there was any discussion about taking Teis' appraisal. He did not have the advantage of the Teis appraisal in front of him to guide him.

Q But he had the same information available to him as Mr. Teis had, namely the cost of material and the cost of labour ?

A Oh yes, Mr. Teis used the Gentry contract you will recall and that did not develop until a long time after Mr. McCutchin's estimates were made.

Q And that leads us to one or two conclusions. Either that the estimates were wrong or the engineering hazards that developed amounted to too great a number, one or the other conclusion is irresistible ?

A Well I don't know that . I would say those are the only two alternatives.

Q What is the other one ?

A That the others are probably an explanation of one of your alternatives but I do not conceive that after taking specific items out we could not have legitimately foreseen, I do not think a 20% over run considering that we admit Mr. McCutchin did not include administration or interest during construction. I do not see that 20% is excessive, especially as that interest during construction and administration charge admittedly he

should have included, and did not, he must take the criticism not having taken them into account, in a large measure. I may say offhand in working it out mentally that is a further 5% and under war time conditions and the experience we have had in other sections of the Company in construction of net over-expenditure in the economic conditions we have been going through, of 15%. I do not think it is excessive.

Q It has been suggested here that Madison did not run into such engineering hazards as you people did and they used the Gentry people for some of their work ?

A Well there are two reasons I could give for that. At least two suggestions that appeal to me on it. First of all, the Madison engineering staff are in a familiar field. They have been in this operation longer. They have got more specialized information. Madison engineers or I would say some engineers who have had experience with public bodies before a project know that for his own internal estimate he would estimate at 25,000, but where this is going to a public utility, will get flipped if not high enough, and will estimate $50,000.00 to be on the safe side. There are things like that to account for the low cost.

Q That brings me to another phase of it. Madison are asking that we add the $200,000.00 to their rate base because of that efficiency and knowledge which you have just mentioned which the consumer has to pay, and now you are also suggesting that the consumer is to pay for - and I am using it for lack of a better term - your inefficiency. Putting a premium on efficiency and a premium on inefficiency, actually that is what it boils down to Mr. Donellan ?

A Well it all boils down that the ultimate consumer of any product

has to pay for it.

Q And I am going to come to that later and will discuss that. Now we will leave that and go on to another aspect of it. I think you suggested yesterday that if the new installation, that is the low pressure gathering line had not been made the working pressure of your plant could have been reduced at a nominal cost so as to process 30 billion feet of the gas ?

A An unknown quantity, possibly 30 billion. An unknown quantity.

Q That would be your 18 billion of existing -

A And the 150 pounds pressure.

Q And another 12 billion ?

A Yes.

Q And then I suppose after a year or two you could have reduced the working pressure again and still recovered a substantial - a further quantity of low pressure gas ?

A That would seem to be to be the logical procedure.

Q At a nominal cost ?

A Yes.

Q Why did you not adopt that method instead of spending all the money you spent on a low pressure system ?

A Well that is in the interests of conservation. We were conserving the gas as well. I do not know why I brought it out as conceivable as being challenged as to why I did not feel that my Company should bear part of the compression cost.

Q I suggest to you that the reason you did not reduce the pressure was because had you done so you could not have recovered the iso-butanes without installing an enormous amount of equipment in your reduced low pressure plant ?

A I do not know enough about the technical aspect of it.

Q Well I am going to ask you to assume that you could not recover

your iso-butane, lowering the pressure of your plant without installing a vast amount of new equipment. I am going to ask you to assume that. Now you did not do it. I am assuming that and my question now is, if you had reduced the working pressure of your plant and if you had put in the new equipment which would be required to recover the iso-butane, the British American Oil Company would have paid for that new equipment would they not ?

A Oh yes.

Q Now if you are achieving the same result by putting in a low pressure system why should not the British American Oil Company stand a substantial portion of that expense as well as the ordinary operating cost ?

A Because there must have been some policy reason as to why the Company did not entertain the idea of going into that capital expenditure, otherwise they would have done so before.

Q And is not iso-butane the answer Mr. Donellan ?

A I do not know.

Q Well will you find out please. I am going to ask you one question and depending upon your answer the rest of my questions may be very short. Is it the case that the installation of the low pressure gathering system was an imperative necessity for your Company and a prime necessity.

A I cannot agree to that without some qualifications.

Q I was going to come to some myself. As an incident thereto the producers in the field acquired - would be able to produce a greater amount of oil - would have a greater recovery of natural gas ?

A Yes.

Q And as a further incident the people in the City of Calgary

would have a supply of gas for a long period of time ?

A Yes.

Q Would you put those three in the order of their importance in the mind of your Company or in your own mind if you wish ?

A Well self interest of any Company or any individual would settle it from a self centred point of view.

Q Well that shortens it by a lot. A prime requisite for your Company was the installation of that low pressure system out of which two incidental benefits are derived. Now you say the consumer should pay and always does ?

A Yes, ultimately.

Q But you are putting your utility, or rather you are evaluating your utility not on the benefits which accrue to those who use it but just on the simple grounds that you are performing a service and those who use your service should pay for it ?

A Correct.

Q Now let us see who uses your service ?

A Three.

Q Three people ?

A Three people get the benefit of that service, that is the producer -

Q The producer ?

A He gets the bigger market, he gets more of his natural gas and he owns the residue gas when the tentative arrangements were made. The British American Oil Company has an extended life of its operating plant, that is in evidence, and the consumers have an extended expectation of life for supply of fuel gas to their homes in Calgary.

Q And I suppose that the Refinery which gets your natural gasoline

product is a customer ?

A It is a customer I think.

Q A consumer rather accepting your -

A Yes, the same definition. They have got an expectation of buying absorption gas for a longer period than they had before.

Q But because you have a closed market you cannot pass off any of the added cost to your Refinery, the consumer. In the form of an increased price to the public ?

A Yes.

Q Well that being so must not the Refinery absorb that cost, that additional cost, out of which they get the benefits ?

A Well that is for the -

Q No I am asking if you will agree with me in principle ?

A Oh yes on principle they are the people who get the benefit and the Refinery definitely also does get benefits just as a consumer in Calgary in this extended life for his gas furnace so the Calgary Refinery has an extended supply of absorption gasoline.

Q But the only suggestion you have made to the Board so far as I understand it is that the absorption plant should pay to the utility 15% and that the consumer in Calgary should pay all the balance ?

A Yes because we feel that the Refinery is paying when it is taking the gas out of natural gasoline. There is where the Refinery is paying for the product of the absorption plant. I am only talking about 15% in relation to the gathering service performed in the collection of gas.

Q Leaving it to the Board to make its own allocation of that which the producer should pay, that which the Refinery should absorb, and that which the Calgary consumer should pay ?

A That is it.

Q Have you any suggestions at all Mr. Donellan as to how that should be done. Let me just say this, I am only a lawyer. Dr. Boomer is an engineer and as I said to a witness the other day, being appointed to a Board does not suddenly endow us with the prescience we did not have before and we are not supposed to adjudicate on an arbitrary basis or without evidence and we are looking for guidance as to the apportionment of those costs between the three people who benefit. I do not think Mr. Fenerty will agree that the City of Calgary benefits but for the purpose of this discussion we will assume it does.

MR. FENERTY: I may adopt some of it.

A Well I personally, and as a representative of the Company, do not feel competent to make any suggestions and I gather that the object of this inquiry is for the Board to collect all the facts and then make their decision after consideration of those facts.

Q Perhaps I should emphasize what I consider the prime purpose of your Company in putting this low pressure gathering system in. I suppose you are familiar to some extent with the proposals which were made to the Board when this inquiry opened in May 1944, Madison A and Madison B and the G. & O. P. and your own.

A Yes I have a very hazy recollection of the others, I know there were two or three alternatives.

Q And the Madison A was one which covered the whole of the Valley ?

A Yes.

Q And Madison B covered a portion of Turner Valley leaving the G. & O. P. to submit a scheme and your people to do the same.

And the Hearing was held for the purpose of determining which of those two schemes should be adopted. I suggest now to you that the Madison A scheme showed a price of gas of 2.14 cents per m.c.f. That is a matter of arithmetic from their scheme. Your own scheme on Mr. McCutchin's figures showed a price of 3 cents per m.c.f. which included amortization on a five and seven year basis ?

A Yes.

Q And then Exhibit 115 which was filed by Mr. McDonald showed a price for British American gas of 5.5 cents per cubic foot. With those figures before the Board would it not be reasonable to assume that our Order would be for the Madison A scheme which would give the lowest price of gas ?

A Unless there were other considerations which developed.

Q Naturally. I am going to suggest to you that on the third day of the Hearing your Solicitor very properly and I am not criticizing him at all, asked the Board and urged the Board to make an Order that day putting into force your low pressure gathering scheme and he said that he and his clients would take their chances as to what would happen. Now was Mr. Harvie concerned with conservation or was he concerned with the consumer in the field or was he concerned with the absorption plant and the extension of its life ?

A I think he was concerned to some degree with all three factors probably the greater factor his own.

Q All right we will say the greater factor his own.

(Go to Page 3271)

Q On page 3152 of yesterday's transcript, the second sentence of the first question, "Now I want to deal for a moment with the allocation of costs in connection with the gas gathering system. You propose that 15 per cent be charged to the British American Oil Company Limited, that is 15 per cent of your gathering costs.

A. Correct.

Q And I suggested that whatever is the proper allocation should apply also to your low pressure compressing plant?

A Yes, that was the suggestion.

Q That was the suggestion and do you disagree with that?

A Yes."

Now, in view of the discussion that we have had in the last few moments, as to those who get the service paying for it, do you still adhere to that answer?

A Yes, I think I do.

Q I see. Would you explain it to us? I may have a wrong idea about what we were talking about.

A Well, it might be right that we went into this primarily of looking after our own self-interests, but there are other considerations. The second consideration was the Conservation Board's requirements of the use of the low pressure gathering system. It does seem to me to be for the dual purpose, and it was not necessary, in my opinion, and I have not charged it yet, to instal the low pressure compressors for the operation of the Turner Valley absorption plant. Granted, we did not do it. We did not have to do it. We replaced this scheme, instead of doing that, we put this scheme in, but I still feel that our original basis of reasoning stands.

Q Can we leave it this way then, Mr.Donellan, that so far as you

are concerned you are satisfied to have the Board on the evidence it now has, and such further evidence as may be given, evaluate the service in terms of the benefits received as well as the service rendered?

A That last part I did not get.

Q In terms of the benefits received as well as in the mere carrying of gas?

A I think the dual factor must receive consideration.

Q Now, the Board Order No. 1 was the Order under which you proceeded with your construction?

A Yes.

Q And that Order was made after certain representations had been made to the Board?

A Yes.

Q And one of them was that the high pressure lines were not to be included in the scheme?

A Correct.

Q And the other was the estimates made by Mr. McCutchin?

A Yes.

Q And out of that we found a price for gas which when the cost was all allocated would probably be reduced to somewhere around the same level as the Madison scheme?

A Yes.

Q Now, when we meet the reality we find a tremendous, - I almost said abnormal, - increase in the estimates. And that puts the Board now in an extremely difficult position. Are they going to award to your people a price which, if Mr. Steer's figures are correct, will mean an ultimate resale price of 13 cents per m.c.f?

A Well there seemed to be one or two factors in that and with

your permission I would like to read a prepared statement. I prepared a statement last night that I asked Mr. Harvie to direct me on it so that I could put it into the record. I think it answers particularly the point which we have just been discussing. I suggested that we should put on the record why the gas gathering lines were put in there as there seemed to be an element of criticism of the plants and the operation and I wanted an opportunity to read into the record that the original submission in the Exhibits prepared and filed at that time was largely completed before February 1944.

In March 1944, when the legislation came down making all pipe lines public utilities, no changes were made in the original draft. At the time of preparing the original submission and exhibits, it was felt that the absorption plant would carry on its activities as previously, with the addition of a market for its residue gas at a price to be fixed. After the legislation came down making all pipe lines public utilities, there appeared to be no alternative other than to include all gas gathering lines as part and parcel of the Utilities operation. It was merely a case of suggesting a fair and equitable basis on which these assets shouldbe turned over to the Utilities Company and then dependent appraisal on the basis of the production costs less observed depreciation was adopted as being a fair, reasonable and businesslike approach to the determination of a correct valuation.

Should the assumption be that it is not necessary to include the gas gathering lines as a public utility be incorrect, then the Company would be, and is, in fact, willing to withdraw the gas gathering lines from

its submission both as to capital valuation and operating costs. If this can be accomplished within the legislation which has been brought down, it will be quite satisfactory to The British American Oil Company. We assume, perhaps incorrectly, that this will require special authority so as to eliminate the existing gas gathering lines from the Utilities' operation. It would, of course, also be necessary to establish a fair price for residue gas on the down stream side of the absorption plant. Obviously the amount to be paid for gas at the down stream side of the compressor plant would have to be such an amount that would take care of the interests of the producers, together with the costs of gathering the gas.

Q MR.FARVIE: That is the absorption plant?

A Yes, that is the absorption plant. I would point out that in my opinion the net results, both to The British American Oil Company, to the producers and to the consumers, would be identical if this procedure was followed, as it will be on the basis of the submissions at present before the Board. There will be additional expense involved in the accounting and recording of the two operations, but should the Board feel otherwise, we are quite prepared to withdraw the gas gathering lines both as to capital and operating expense.

The position with regard to the water system was definitely made clear by me in evidence on page 3090, and this system can also be withdrawn from the Company's submission if the Board so desires. In this case, there will be no change in the estimated cost. of operation since the charge made for water by The British American Oil Company will, to all intents and purposes, be identical with the amount already included in the estimated operating costs.

If the Board wishes to withdraw them, and they can be withdrawn, we are willing to have the gas gathering lines and the water system withdrawn both as to capital and as to operating costs. That would leave our submission then parallel with the priginal statement prepared by Mr. McCutchin in the early stages of the Hearing.

Q THE CHAIRMAN: I wanted to correct some of your historical facts, Mr.Donellan. The statute was assented to I think, on the 4th of March, 1944?

MR. McDONALD: The 24th.

THE CHAIRMAN: The 24th of March. The Board held a meeting on the 29th of March at which all parties were invited to submit proposals, and your proposal was duly submitted, and Mr. McCutchin gave it to us on the 1st of April, and on the 11th of May Mr. McCutchin gave his evidence. Now, if I appreciate all that you have said, the position of this Board, which made an order predicated upon three things, one of which you are willing to eliminate from your rate base, with the other two remaining, Mr. McCutchin makes an appraisal and all these things flow from those estimates. Now, we are in the position if we accept your figures which on the face of it appear to be, in my opinion beyond reason, what are we to do? Are we to pass on to the public the results of that, or are we going to say to your company "You have made a mistake in some places and you should write off your mistakes in the same way." Just in the same way as when I buy stock on the market and it goes down the next day, I take my loss. That is one of my hazards. I am looking for guidance, Mr.Donellan, I am not quarrelling with you.

A If that was the Board's decision that would be implemented.

Q Would you smile as cheerfully as you are now if that were so?

A No, I would get busy with my pencil.

Q Now then, there is one more subject I would like to discuss with you and I am through. You are charging, the head office of the parent Company is going to charge $15,000.00 for supervision. Before the utility was formed how much did the parent company charge the absorption plant for its services which they gave to it?

A Actually nothing. As I pointed out, we never worked a profit and loss for our producing department of the theory that there is no profit made until the products are sold, but for purposes of comparison with other sections, we applied, we made a distribution without confirmation of administration expenses, which was taken on the basis of the volume of products and throughput. And this $15,000.00 was arrived at in the first instance, at least Mr. McCutchin gave it as his estimate in the first instance and then I made a computation that,taking the last several years our internal allocation of overhead in relation to direct operating costs of refinery operations, gave me a certain figure. Applying that same ratio to those figures gave me the fifteen thousand.

Q But in this case all you have done actually is to, you might say, you have painted the name on the door?

A Excuse me, Mr.Blackstock. I thought I brought that out in examination or cross-examination by somebody.

Q You started new books?

A Yes, started new books, but as near as I can tell from the time analyzed, my charge for administration - first of all, for example, I was closing my books as at the 7th of July, and prepared to submit to the Board Order for the overhead

charge of $970.00 right at this particular moment for seven months. The $15,000.00 per annum comes to eight thousand. I am prepared to do it this way, either take the fifteen thousand at the Board's direction or a floating amount which can be justified and put in each year.

Q Would I be right in assuming that your company is not going to charge your absorption plant department with any administration fee, from now on? They did not do it in the past.

A Our internal entries, as I said, I am saying that in the case of some subsequent Hearing I want to get the books and you will find in there the entries, but they are allocated in the internal statements.

Q Before the inquiry you had a crew of men in the absorption plant?

A Yes.

Q And these men would look after the lines and the operation of the plant?

A Yes.

Q You had a crew?

A Yes.

Q And you increased your crew by reason of the installation of the low pressure system?

A I cannot answer that.

Q What I am interested in there is this, how do you allocate the wages of those men you employ in the dual capacity, that is partly in the absorption plant and partly in the Utility.

A The plant superintendent supplies me with the percentage with regard to that. Certain men work 100% on utility work, and some of the general plant men, I do not recall the percentage offhand, but the plant superintendent gives me a

report and tells me that 40% of a certain man's time was spent on utilities' operations and so on, through the whole payroll.

Q Through the whole payroll?

A Yes.

Q DR.BOOMER: Has that information been supplied to the Board's auditors?

A I do not know whether it has been supplied but it is available. I have it for the period of construction.

MR. HARVIE: What was the question?

DR.BOOMER: With regard to the allocation of the payroll.

A THE WITNESS: They have complete information in Calgary of that and have had right from the start. The Board here can walk into the Calgary office, the Board auditor, any day and get full details of all the operating charges. I have not got the details. I have the capital but not the operations.

THE CHAIRMAN: Any further cross-examination before Mr. Harvie re-examines?

MR. FENERTY: Might I ask one more question? Perhaps I should have asked it previously.

THE CHAIRMAN: One?

MR. FENERTY: And what leads out of it. I have not taken so much time with this witness.

THE CHAIRMAN: But you become enthusiastic when you get going.

MR. FENERTY: Pardon?

THE CHAIRMAN: You become enthusiastic when you get started.

MR. FENERTY: Well, I begin to see the possibilities.

.....

CROSS-EXAMINATION BY MR. FENERTY

Q Mr.Donellan, I just want to discuss with you for probably a moment or two, I hope, and that is the division of the cost of the gathering lines, it is on the basis of 15% to the absorption plant and 85% to something else. Now, you were not here in the earlier discussion, but I can remember when Mr. Kirkpatrick was on the stand, he suggested that the volumetric method was the more scientific method to compute allocation of costs. I suggest to you that if this is going to be treated as a scientific method it is necessarily based on the theory that 15% of all of the elements going to make up the gas are taken out of it and 85% of all of the elements making up the gas are left in it. That would seem so, wouldn't it?

A Yes.

(Go to page 3280).

Q And the fact is, I think, we all know that the absorption operations take out a very much larger volume of some elements than they do of others.

A Yes and you would get back to the horse power basis of weighting.

Q Do you know that is so?

A I do not know but I assume it is so.

Q Well will you assume that it is so?

A Yes.

Q If that be so, it follows from the answer you have just given me that where there are unequal amounts taken out and possibly of unequal values . . . . .

A I won't say that.

Q Follow me through, that it is not a scientific system.

A Excuse me a moment. I agreed with you on the basis of an assumption. Now you say that because I agreed with your assumption that I necessarily agree with the fact. I only agree with you insofar as your assumption is concerned.

Q I am going to ask you to assume that the percentage of the different elements taken out in the absorption operations varies. It may be 15% and it may be 40% of some elements and a different percentage of another element.

A It might be.

Q I am going to ask you to assume that they also might have different commercial values.

A Yes.

Q Let us assume that. We do not know at the moment.

A All right. We are assuming that.

Q Then I suggest to you it follows from the first answer you gave me that the volumetric method is not a scientific method,

does it not?

A No I do not think so.

Q Let us take an illustration. We will again assume that the elements taken out of every dollar's worth of elements, and in that case the elements taken out represent 99 cents. I am taking an extreme case.

A Yes.

Q And the 85% left in of the other elements represent 1 cent.

A Yes.

Q It would not then be a scientific system would it?

A No, but first of all how are you going to determine the valuation of the component parts?

Q It would be an economically impossible system would it not?

A Yes.

Q And I say does it not follow from that that whatever differences there are it must be economically unsound. But let us go further, 85 cents and 15 cents. Where would you draw the line as to when it becomes a scientific economic system?

A I would not attempt to draw the line.

Q Is this not the result that wherever you have unequal values in the product your volumetric method must necessarily go by the board?

A As I tried to point out in my evidence how shall we determine the realization on the value of a product which is only a component part of, in this case at the moment, of another component part of another product. How in the world would you ever determine the valuation? I do not know.

Q Then we are back where we started, the volumetric method to be a scientific system necessarily is predicated on the theory that 15% of each element is taken out.

A I would say that the volumetric method is a practical system.

Q You will not go that far with me?

A I will say that the volumetric method is a practical system.

MR. CHAMBERS: There are one or two statements the witness made that probably I might desire to cross-examine him on but in view of the position I now take I do not intend to do it. A similar situation has arisen I think with probably every witness who has been in the box. When my own witnesses have been in I have tried not to object because I did not think we should be too technical. Naturally you are tempted to interject or to object even when members of the Board ask questions. But this is a thing that concerns me and I think it concerns some other counsel too, that it has been the practice and we have asked practically every witness in the box his opinion on certain things. I do submit in the last analysis the only evidence, the only opinion evidence that this Board is entitled to act on, is opinion evidence of an expert in respect of a matter that he is being called on. In other words in my appreciation of the Board's duty it is this, that it cannot come to a decision on any particular phase of a situation because it has asked the viewpoint of every witness that comes in the box, or some of them, what their view is, unless they are experts. For instance on the question of reserves, that is another thing. Or engineering matters. But the fact that I did not object to opinion evidence from any witness or that I did not cross-examine them on it means nothing. I want to be free to argue that point in the final resultion that basis I have no questions to ask.

THE CHAIRMAN: Of course, Mr. Chambers, there is a difference between an Inquiry by an administrative tribunal

and a lawsuit between two individuals. There is a difference.

MR. CHAMBERS: Oh yes, about the rules of evidence.

THE CHAIRMAN: If I attempted to enforce the rules of evidence I would be in the Appeal Court every week of my life.

MR. CHAMBERS: I agree.

THE CHAIRMAN: We do not have in the witness box the ordinary type of witness. Every one that we have had in the witness box to date has been an expert engineer, an expert accountant and men of high calibre, not only from a mental but an educational standpoint. Very often they are qualified to give opinions although they cannot qualify as an expert. On the other hand, if they do not want to give an opinion they can say so.

MR. CHAMBERS: Yes. I agree that the rules of evidence should not apply. But I am saying in my submission at least when the time comes when a final decision or opinion has to be formulated then the Board cannot escape its responsibility by getting opinions from a lot of other people who are not experts and acting on them.

THE CHAIRMAN: Perhaps I can say this to you, Mr. Chambers, that Dr. Boomer is doing his best to make an engineer out of me. I am trying in my humble way to make a lawyer out of him and I am succeeding much better than he is. I think you will find when we come to write our decision we are not going to depend upon opinions by men who are not qualified to give them. Now Mr. Harvie, do you wish to start?

MR. BLANCHARD: May I ask one or two questions arising out of what you have had to say?

Q I think you said to the Chairman that your company is quite willing - and you are speaking for the British American Oil

Company Limited - to retain the high pressure lines as an adjunct of the absorption plant business and sell your gas downstream from the absorption plant to the utilities.

A To dispose of the gas on the downstream side at a price to be arranged.

Q Yes. You were careful to say that that cost would include the cost of gathering the gas.

A Yes.

Q I assume there would also be the general operating costs based on the valuation of the lines and so on?

A Undoubtedly. I went on to say in my opinion the net result would be identical with what is before the Board.

Q Exactly. You say you would also set up as the basis for the price of gas the identical capital cost and operating costs that you set up now?

A That is right, because in my opinion they are reasonable.

Q There would be no difference in the result?

A That was my submission.

Q That is your argument. I just want to draw to your attention what was said by Mr. McCutchin in giving evidence on the 9th of May, 1944.

A Yes.

Q Which was several months after this legislation had been brought down.

A Yes.

Q And was given at a time when you knew, I assume, that these lines would become public utilities. It is in cross-examination by Mr. McDonald. "Q. Do I understand you correctly, do I gather from your evidence, Mr. McCutchin, that the present installation of gas lines in the South end by the British American had been charged to the

absorption plant and will remain as an adjunct of the absorption plant? A. Yes, they are considered as such. Q. And they will not have to be taken into the rate base of a return to which the British American would be entitled for performing this service." You got that question did you?

A Yes.

Q "A. I do not know whether that is up to our decision or not. We will act at the direction of the Board. If they say 'put them in' we will put them in but on the plan as proposed no figure has been allowed or provided for for those lines. It was not our intention to include them." And then the Chairman says: "Nor do you contemplate doing so in the future. A. No sir."

Now then, your present suggestion is that that was made on the assumption that the lines would be retained by the British American?

A Yes, correct.

Q As an adjunct of the absorption plant?

A Correct.

Q And that they would not be taken in the rate base in the utility?

A Correct.

Q But is not the inference there clear that there is to be no charge made for the gathering of gas from those lines?

A I do not know about that.

Q You do not know about that?

A But I will say this, to put the record straight, that I do not want to have any reflection made on Mr. McCutchin. I made my first visit to Calgary in July or August of last

year. I had had the reports and suggestions and I arrived in Calgary with a strong realization that the gas gathering lines would have to come in. One of the points I had to discuss with Mr. McCutchin was the basis on which we should turn them over. Mr. McCutchin said "I have only a few weeks ago made the statement they were not going in." He said "Now I cannot go back and put those gas gathering lines in." I said "You have no alternative, you have to put them in under this legislation." The net result was that legal advisors confirmed my understanding of it but Mr. McCutchin was still of the same idea.

(Go to page 3287)

We journeyed to Edmonton, Mr. McCutchin and myself, and discussed the matter with the Board and I do not say there was approval or anything else but it was so automatically assumed that the gas gathering lines should go in and coming back he said "Well, I guess I was wrong. The gas gathering lines have to go in." I just want to point out to put the record straight, that Mr. McCutchin was not misleading anybody in making these statements.

Q Apparently when he came to calculating the cost of the gas he was not taking into account any gathering charges or operational costs with respect to these lines.

A He was only concerned with the costs of the system which he was estimating, the capitwl costs. I do not think he ever said the cost of the gas through the absorption plant. I do not recall ever seeing an estimate from him of that in the early stages. It was his estimate of the cost for the new operations.

Q May I ask you this, the Chairman mentions the fact that you have two alternatives if you wanted to recover iso-butane. One was to lower your pressure in the high pressure lines?

A Yes.

Q And take in more wells, and the Chairman asked you to assume that that would involve very heavy outlays for installations at your plant?

A Correct.

Q And the other alternative was to put in a low pressure sustem as has been done?

A Yes.

Q I want to know when these two alternatives were first discussed by the British American Oil Company Limited?

A I have no knowledge of when they were discussed.

Q I want to know whether they were discussed long before this legislation was passed?

A I have no knowledge of that.

Q Can you find that out?

A I can make inquiries of the people Mr. McCutchin might have talked to and our officials.

Q Can you find out actually whether the relative costs of the two schemes were discussed by the management in 1942 or prior to that?

A I will have the files and discuss it with everybody concerned.

Q And if not in 1942 then when it was. Thanks.

THE CHAIRMAN: Mr. Harvie, how much time will you be?

MR. HARVIE: You will be surprised to know that between the cross-examination of the other parties, your examination and the examination of Mr. Blanchard, I do not think I have a question to ask. I think everything we intended to bring out has been brought out on statements and on the evidence at this stage. Mind you, there are lots of phases that we might call evidence on by people who may be more qualified in a special line, or after Mr.Donellan has a chance to acquire the information he has been asked to supply.

THE CHAIRMAN: So that you have no questions?

MR. HARVIE: Not at the moment.

THE CHAIRMAN: You fill me with joy.

MR. HARVIE: I reciprocate it.

THE CHAIRMAN: I think that is all, thank you, Mr.Donellan. Mr. Chambers, have you some evidence to

lead from Mr.Stevens-Guille with relation to this phase that we have just been discussing, or do you want to leave it until Mr.Donellan has had an opportunity of analyzing your statements?

MR. CHAMBERS: Yes, I would prefer to do that. I was going to raise the question of the Agenda. As I understand it you are not sitting next week?

THE CHAIRMAN: No.

MR. CHAMBERS: I was wondering whether Mr.Donellan would be here then and have the information available for the first week in October? In other words, whether Mr.Stevens-Guille would be questioned before Mr. Donellan finishes.

THE CHAIRMAN: When do you expect Mr.Donellan will be back here, Mr. Harvie? I thought probably when Mr. Hamilton was giving his evidence he would want to be here.

MR. HARVIE: I think that is very true. I think possibly he will be here then.

THE CHAIRMAN: You remember we tentatively arranged we would have Mr. Hamilton on the 1st of October. We were then assuming that we would finish with Mr. Baker, Mr.Donellan and finish with Mr. Stevens-Guille. Obviously that has not happened. Therefore, I suggest that we start with Mr. Stevens-Guille on the 1st of October and follow his evidence with that of Mr. Hamilton's. That will probably relieve Mr.Fenerty's worries about his Mr. Morrison, whom we thought we would have back on the 9th.

MR. CHAMBERS: Is Mr. Morrison going to give evidence?

THE CHAIRMAN: No, but I think he wanted him at his elbow. Then we will adjourn now until the 1st of

October at 9.30 in the morning and we will proceed with the evidence, the cross-examination of Mr.Stevens-Guille. To be followed by Mr. Hamilton. Unless you have an alternative suggestion, Mr. McDonald? I suppose you are waiting for our decision in your application before you do very much more.

MR. McDONALD: Yes. I am concerned with this. Following the week of the 9th, 10th and 11th of October, I was anticipating then that I would call my witnesses. I will have at least three, starting in November, starting on November 5th.

THE CHAIRMAN: Yes.

MR. McDONALD: And I was going to have a witness from the East ready for November 12th.

THE CHAIRMAN: I think you can arrange that, Mr. McDonald and we will accommodate you to that extent.

MR. Harvie: Any additional information that is now being prepared by Mr. Donellan can be put in at any convenient time?

THE CHAIRMAN: Yes.

MR. CHAMBERS: If it is convenient I would like to have the part relating to my question before I put Mr. Stevens-Guille in.

MR. DONELLAN: We will arrange to have the information passed on to you and I can prove it when I get back here.

MR. CHAMBERS: That is fine.

(At this stage the Hearing was adjourned until 9.30 A.M. October 1st, 1945.)